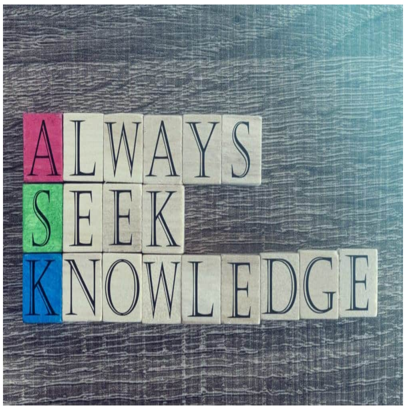

Stock Market Overvalued: 3 Things Investors Must Do

Description

The Canadian stock market is trading at more expensive levels than in 2019, according to the Shiller CAPE ratio. *Siblis Research* recorded that the Canadian stock market, using the **S&P/TSX Composite** as a proxy, had a Shiller CAPE ratio of about 23.7 in mid-2019 versus 25.5 in mid-2020.

There has been increasing noise about a market pullback coming, as the stock market has become more and more expensive. It's now more alarming than ever to tread carefully in an overvalued stock market.

Don't panic sell: Stay invested

After seeing that the stock market is trading at incredibly expensive levels, some investors immediately sell so that they can sit on a mountain of cash to deploy in a market crash.

However, it's not the wisest decision to panic and sell out of the stock market. The stock market can stay irrational for a long time — no one knows for how long.

So, stay invested to benefit from the long-term rise of the stock market. If you feel uncomfortable, because you have too much capital invested in stocks, consider reviewing your portfolio and systematically selling. This could mean taking at least partial profits in expensive stocks or positions that have grown too large.

Accumulate more cash than usual

By making planned sales of stocks, you can accumulate more cash than usual to increase the amount of cash available for deployment when market corrections do occur.

You can also transition some of your growth holdings to more defensive, blue-chip dividend stocks. Dividend stocks churn out periodic dividends that increase your income to allow you to accumulate more cash for investment.

At the right valuations, **Bank of Nova Scotia**, **Emera**, **BCE**, **Granite REIT**, etc. could be great dividend stocks to hold for stable cash generation. For more dividend stock others, check out other Canadian Dividend Aristocrats, which tend to increase their dividends over time.

A solid dividend stock portfolio that's focused on income can generate a safe yield of 3-5% in today's expensive stock market. A $100,000 dividend portfolio with a 4% yield would generate $4,000 of income a year.

Update your stock buy list

More often than not, market corrections of about 10% occur over market crashes of 30-50%. Most of the time, buying on dips of 10% or more in quality stocks is a good strategy to follow for outstanding long-term returns.

The Canadian stock market has been on the rise pretty much since the pandemic market crash in March 2020. In between, there were some dips of about 8% or less.

The market is much more expensive now, having climbed higher after making an all-time high early this year.

You can simply observe the S&P/TSX Composite index to watch for the Canadian stock market correcting 10%. That could be a cue to buy some stocks.

However, updating your unique stock buy list for buy range targets (or dividend yield targets to buy at) could suggest safer entry points requiring bigger corrections than 10%. You'll know when it could be attractive to invest only if you have an updated stock buy list!

The Foolish takeaway

In an expensive market, as it is today, you might feel like you need to do something, such as taking profit. However, sometimes, the best move is no move. Depending on your stock portfolio, it may be better to sit on your hands.

To benefit from long-term stock returns, investors need to be patient in holding stocks of great companies for a long time and in waiting for attractive valuations to buy wonderful businesses.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/28
Date Created
2021/07/17
Author
kayng